United Nations A/66/806

General Assembly

Distr.: General
17 May 2012

Original: English

Sixty-sixth session
Agenda item 131
Financial reports and audited financial statements, and reports of the Board of Auditors

Report of the Board of Auditors on enhancing accountability, transparency and cost-effectiveness in the United Nations system: proposal to clarify and enhance the role of the Board of Auditors in the conduct of performance audits

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered a note by the Secretary-General (A/66/747 and Corr.1), transmitting the report of the Board of Auditors on enhancing accountability, transparency and cost-effectiveness in the United Nations system: proposal to clarify and enhance the role of the Board of Auditors in the conduct of performance audits. During its consideration of the report, the Committee met with the members of the Audit Operations Committee of the Board of Auditors and, in addition, with representatives of the Secretary-General and the Office of Internal Oversight Services (OIOS).

2. The report of the Board of Auditors is submitted pursuant to General Assembly resolution 65/243 B, in which the Assembly welcomed the Board's willingness to conduct performance audits and requested the Advisory Committee to request the Board to submit to the Assembly at its sixty-sixth session, in coordination with the Office of Internal Oversight Services and the Administration, a comprehensive proposal in this regard, including the impact of the proposal on the Financial Regulations and Rules of the United Nations. In a letter dated 11 August 2011, the Advisory Committee transmitted the request of the Assembly to the Board.

12-34440 (E) 210512

Please recycle

II. The performance audit role of the Board of Auditors

3. In its report, the Board of Auditors states that the principles of public accountability, transparency and effective governance require that the Administrations managing public bodies be held publicly responsible for their economic, efficient and effective management and not simply for producing properly presented financial statements. The Board states that the examination of this core managerial responsibility is a key element of the work of external auditors in the public sector and it is the strong view of the Board and the supreme audit institutions that the same principles and roles are also applicable to international public sector organizations (A/66/747 and Corr.1, para. 7).

4. The Board indicates that the value of a performance audit mandate for external auditors is enhanced by the fact that external audit is wholly independent of the Administration whose activities are subject to such audit (ibid., para. 12). The Board further states that independence is the bedrock of effective external audit and public accountability. To maintain, demonstrate and protect this independence, the Board states it is essential that the external auditors are free to determine their work programme (based on consultations as and where appropriate), have full discretion in the discharge of their responsibilities, and are free from undue influence by any part of the entities that they audit (ibid., para. 13).

5. The Board further states that performance auditing also enables external auditors to use their unique position, access and expertise to add value to an organization by identifying ways in which activities and operations can be delivered more cost-effectively and making appropriate recommendations for improvement (ibid., para. 14).

6. The Board states that, in the Financial Regulations and Rules of the United Nations, a wider role is recognized in that the Board is given a discretionary mandate beyond the financial audit of the financial statements (ibid., para. 8) as follows:

> Regulation 7.5. The Board of Auditors may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

7. The Board of Auditors expresses the view, however, that regulation 7.5, as it stands, does not fully and clearly encapsulate all the elements of performance auditing as they have evolved within public sector auditing, particularly with regard to the examination of the economy and effectiveness of operations. The Board defines performance auditing as the discipline whereby external auditors independently assess the extent to which an organization has utilized the resources at its disposal in an economical, efficient and effective manner to achieve stated objectives (ibid., para. 10).

III. Proposals to clarify and enhance the role of the Board of Auditors in the conduct of performance audits

8. The Board states that its long-standing approach under regulation 7.5 has served to integrate its work with that of the legislative bodies and to provide the General Assembly, Member States and donors with a report on every entity (ibid., para. 17). The Board indicates however that it has considered a number of factors which, it states, will affect the operation and functioning of its reporting, particularly in relation to performance audits, as follows:

(a) The requirement for annual reporting under the International Public Sector Accounting Standards (IPSAS), which will lead to increased numbers of reports on a more frequent basis and will impact the work of the Administration, the Board, the Advisory Committee and the General Assembly. The Board states that it sees the need and opportunity to rationalize the size and content of the long-form audit reports and that there is also an opportunity for more flexibility in the production of stand-alone reports on specific topics. The Board further states that it considers that the General Assembly would like to see timely reports that identify critical problems, causes and risks that need to be addressed to improve United Nations administration and operations;

(b) The Board states that the timing of the long-form reports is largely determined by the financial accounting and audit cycle, which means that in some instances the General Assembly may not receive timely and independent external audit assessments and reports on major issues and concerns that the Board identifies during its audits. The Board states that, in many cases, it is ready and able to report to the General Assembly within a shorter and more responsive time frame;

(c) The Board states that it recognizes the need to provide the General Assembly with further in-depth topic-specific studies to enable its consideration of strategically important issues both within and across United Nations organizations. The Board states that currently it is constrained to reporting the results of its findings in entity-specific long-form reports or needs a specific request from the Advisory Committee to issue a separate report;

(d) The Board expresses the view that producing a long-form report on every entity regardless of size and risk may not represent the most cost-effective way to focus limited external audit resources, and that a better external audit service could be delivered by focusing in more depth on the most critical issues for management.

9. In the light of these issues, the Board of Auditors puts forward two proposals. First, the Board expresses the view (ibid., para. 18) that the General Assembly may see value in revising regulation 7.5 to read (additions underlined):

> The Board of Auditors may make observations with respect to the <u>economy</u>, efficiency <u>and effectiveness</u> of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

10. Secondly, while stating that in the long run it considers that regulation 7.5 needs to be amended, the Board states that in the short term it is prepared to continue to function under the existing arrangements whereby it would seek the concurrence of the Advisory Committee to produce topic-specific reports based on its risk assessments. Utilizing regulation 7.7, the Board proposes to seek the

concurrence of the Advisory Committee by presenting its forward programme of work to the Committee at the beginning of an audit cycle. The Board states that it would streamline its long-form reports and balance its programme of work with a limited number of topic-specific audit reports during each audit cycle. It is indicated that the programme of work would focus on potential topics identified by the Board, with a clear rationale for each topic's selection being provided. In accordance with regulation 7.7, the Advisory Committee may then request the Board to deliver its proposed programme to the General Assembly (ibid., para. 20).

11. The Board highlights several advantages which it sees in its proposed approach, namely (a) an improved audit service, through more focused and in-depth examinations of specific topics; (b) improved timeliness of reporting; (c) neutral impact on the audit fee based on these specific proposals, as there would be a realignment of the Board's existing budgetary resources because part of the performance audit effort relating to the examination of management issues included in the Board's long-form reports would be transferred to a limited number of topic-specific reports. The Board notes, however, that in the long run it could be that the Advisory Committee and/or the General Assembly would request more studies by the Board, in which case there might be cost implications; and (d) increased accountability and public confidence from enhanced external audit reporting (ibid., para. 25).

IV. Coordination between the Board of Auditors and other oversight bodies

12. With regard to cooperation with other oversight bodies, the Board states that external auditors should, and do, consult widely to understand risks and coordinate, where necessary, with audit committees and internal oversight bodies to avoid unnecessary overlap and realize opportunities for maximizing the value of oversight. While the Board states that it supports a performance audit remit for internal oversight services, it considers that the size, complexity and challenges faced by the United Nations system mean that the external and internal oversight bodies have more than enough room within which to operate and contribute (ibid., para. 26).

13. With regard to its proposals, the Board highlights the position of the Independent Audit Advisory Committee as contained in paragraph 56 of its report (A/66/299). The Advisory Committee notes that the Independent Audit Advisory Committee stated that it was cognizant of the fact that, according to International Standards of Supreme Audit Institutions Standard 5000, external auditors of publicly funded international institutions perform both regularity (the traditional financial statement audit) and performance audits. With regard to the proposal of the Board of Auditors for a strengthened mandate to cover the "three Es" (economy, efficiency and effectiveness), as well as the ability to issue stand-alone reports on the results, the Independent Audit Advisory Committee expressed the view that, should the General Assembly authorize the Board to carry out additional performance audits, measures should be put in place to make sure that such audits are not unnecessarily or inappropriately duplicative or overlapping with those performed by OIOS and that ensuring the absence of overlap or duplication will require concerted effort

between OIOS and the Board of Auditors and would require the Board to place more emphasis on the work done by OIOS.

14. **The Advisory Committee has consistently highlighted the importance of coordination between OIOS and the Board of Auditors with respect to their programmes of work to avoid any duplication of effort, minimize disruption to the entity being audited and ensure that each benefits from the audit work of the other. The Committee shares the view expressed by the Independent Audit Advisory Committee that approval of an enhanced role for the Board of Auditors in the area of performance auditing would further increase the importance of effective coordination between the Board and OIOS.**

V. Consultation with other stakeholders

15. The Board of Auditors states that, during the preparation of its report, it consulted with the Administration, OIOS, the Independent Audit Advisory Committee, the Joint Inspection Unit and the internal audit services of the funds and programmes; and that the comments received were taken into account in developing its proposal (A/66/747 and Corr.1, para. 5).

16. As noted in paragraph 1 above, the Advisory Committee also met with representatives of OIOS and the Administration with respect to the proposals of the Board of Auditors. The Committee was informed that OIOS saw potential benefit from the Board being requested to conduct specific performance audits within its competency that could not otherwise be done by OIOS or the Joint Inspection Unit. However, OIOS expressed the view that the unrestricted expansion of the mandate of the Board of Auditors to conduct performance audits beyond those already provided for, or requested by the Advisory Committee, would be duplicative and create inefficiencies for the organization. OIOS stated that it saw increased risks of overlap, duplication of effort and unnecessary administrative burden in changing the Financial Regulations and Rules of the United Nations to permit the Board to conduct performance audits without a corresponding request from the Advisory Committee, which, it stated, should also include review, advice and assurance of coordination with other oversight bodies by the Independent Audit Advisory Committee.

17. The Advisory Committee was informed by the Administration that it is of the view that a revision of the mandate of the Board of Auditors should be considered holistically in the context of the overall regulatory framework, especially as the proposed revision has the effect of changing the balance of roles and responsibilities in that framework. Furthermore, the Administration expressed the view that any change should be done in a manner which minimizes duplication or complements the audit efforts of the three oversight bodies when audits cover the same area of work. The Administration stated that the Board's proposal to report periodically and independent of the opinion on the financial statements would have the merit of being more flexible and responsive. However, the Administration noted that (a) matters that require the attention of the Secretariat could be reported at any time under current arrangements; (b) IPSAS implementation will lead to annual reporting on all entities; and (c) performance audits may raise significant issues that require General Assembly review and approval, typically in a budget context, owing to resource implications.

18. The Administration also expressed the view that the timing of a change in the Board's mandate should factor in the following considerations: (a) the current financial climate — if performance audits entail additional costs; (b) the increase in periodicity as well as the depth of audit work that the IPSAS-compliant financial statements will entail for the Board; and (c) the ability of the Board and the Secretariat to cope with a concurrent increase in financial and performance audits during the implementation of IPSAS and Umoja over the next few years.

VI. General comments and recommendations

Regulatory framework of the United Nations

19. The Advisory Committee recalls that, as established by the General Assembly, the audit function in the United Nations is carried out by both internal and external auditors. As outlined in resolution 48/218 B, the internal audit function is the responsibility of the Office of Internal Oversight Services, which has operational independence under the authority of the Secretary-General in the conduct of its duties. The establishing resolution for OIOS also introduced, for the first time, direct reporting to Member States. In accordance with resolution 74 (I) of 7 December 1946, the external audit function for oversight, monitoring and control by the Assembly of the administrative and financial reporting of the United Nations is performed by the Board of Auditors. In addition, in accordance with General Assembly resolution 31/192 of 22 December 1976, the mandate of the Joint Inspection Unit, as the only system-wide oversight body, provides it with broad powers of investigation in all matters having a bearing on the efficiency of the services and the proper use of funds, and states that the Unit shall satisfy itself that the activities undertaken by the organizations are carried out in the most economical manner and that the optimum use is made of resources available for carrying out these activities.

20. **While the methods used in the conduct of their work may be similar, the Advisory Committee is of the view that the role of the external auditor remains fundamentally different from that of the internal auditor. In this regard, the Committee recognizes the importance of the General Assembly and other legislative/governing bodies of the United Nations system organizations being able to avail themselves of the independent opinion of the Board of Auditors, including with respect to the administration and management of the organization. For its part, the Advisory Committee recognizes the continued high quality of the work of the Board of Auditors, both in terms of its audits of the financial statements, the management issues covered in its long-form reports and, when requested, the topic-specific audits it prepares.**

Impact of the implementation of the International Public Sector Accounting Standards

21. The Advisory Committee notes that one of the primary factors underpinning the proposals of the Board of Auditors is the impact of the implementation of IPSAS on its workload. As highlighted by the Board, the requirement for annual reporting will significantly increase the number of reports it must submit to the General Assembly or other legislative/governing bodies of the United Nations system organizations. Upon enquiry, the Advisory Committee was provided by the Board

with information on the impact of the implementation of IPSAS on its reporting, which is provided in the annex to the present report. The Committee was informed that whereas currently the Board produces 28 reports in a biennium reporting year and 9 in a non-biennium reporting year, 8 additional reports would be submitted in 2013 because of IPSAS adoption by a number of entities and that, from 2014 onwards, the Board would be submitting a total of 28 reports annually.

22. **The Advisory Committee notes that the requirement for annual reporting under IPSAS will have an impact on the Administration, the Board of Auditors, the General Assembly and other legislative/governing bodies of the United Nations system organizations and, by extension, on the Advisory Committee itself. Beyond the increased frequency of reporting, however, the Committee is of the view that the implementation of such a fundamental change in accounting standards will, at least initially, increase the workload of both the Administration and the Board of Auditors in terms of the audit of financial statements. The Committee has taken this factor into account in its consideration of the proposals of the Board of Auditors.**

Long-form reports

23. The Board states that to address the issues highlighted in its report, including the impact of IPSAS, it would need to streamline its long-form reports on individual entities by shortening their content to focus on financial, internal control and compliance issues and a limited range of entity-specific "management" issues and, in the case of low-risk entities, producing an opinion (short-form report) only, any exceptional matters being included in a long-form report in accordance with regulation 7.11. The Board states that it would balance the reduction in coverage of "management" issues at the entity level by producing a limited number of topic-specific reports each year on selected major managerial issues.

24. Upon enquiry, the Advisory Committee was informed that, owing to the increasing volume of reports, the Board was of the view that it may not be cost-effective to continue to prepare a long-form report for all entities, particularly if, in its judgement, the level of risk does not require it. The Board further stated that it did not consider the preparation of such reports, in all cases, to be necessarily the best use of limited audit resources, especially when there may be more critical issues to examine. The Board stated however that, if in the course of its financial audit serious issues were observed, the initial work programme would be amended and a long-form report would be produced. The Board further stated that it would expect to have a discussion with the Advisory Committee before a decision to reduce the long-form report for any particular entity is taken.

25. **The Advisory Committee considers that the observations and recommendations of the Board of Auditors in its long-form reports provide important insights in terms of resource and management issues which are beneficial to the General Assembly and other legislative/governing bodies of the United Nations system organizations. For its part, the Committee has consistently drawn on the Board's findings to inform its consideration of the budget and other proposals of the entities concerned. The Advisory Committee therefore recommends that the Board continue its current practice of producing both short-form and long-form reports for each entity.**

Performance auditing role of the Board of Auditors

26. The Advisory Committee notes that, in accordance with regulation 7.5, the Board of Auditors has, since its inception, utilized audit approaches as they have evolved in the public sector, including performance auditing, to examine "managerial issues" and that it has used its discretionary mandate to select topics for examination, reporting on the results in its long-form reports (A/66/747 and Corr.1, para. 15). When requested, the Board has also produced free-standing reports on a single topic, such as the progress reports on the capital master plan and the implementation of the International Public Sector Accounting Standards. **The Advisory Committee considers that the performance audits carried out by the Board of Auditors and reported either as elements of its long-form reports or, when requested, as stand-alone audits, continue to make a positive contribution. While recognizing the limitations that the impact of the implementation of IPSAS may have on its capacity to take on additional performance audits, the Committee, in principle, sees merit in an increased role of the Board in the conduct of such audits. However, the Advisory Committee does not consider that the Financial Regulations and Rules of the United Nations, as currently formulated, present any notable impediment to the Board's ability to carry out additional work in this area. Accordingly, the Advisory Committee does not see the need for regulation 7.5 to be revised.**

Proposal to seek the concurrence of the Advisory Committee for topic-specific reports

27. The Board states that it is prepared to continue to function under the existing arrangements whereby it would seek the concurrence of the Advisory Committee to produce topic-specific reports based on its risk assessments by presenting its forward programme of work to the Committee at the beginning of an audit cycle (ibid., para. 20). The Board states that, in addition to the current topic-specific reports on IPSAS and the capital master plan, it envisages that it would undertake no more than three additional topic-specific reports per year on a similar scale within its existing budgetary resources (ibid., para. 22). The Board states that, in accordance with regulation 7.7, the Advisory Committee may then request the Board to deliver its proposed programme to the General Assembly (ibid., para. 20).

28. The Board highlights the importance of external auditors' consulting with the governing bodies — the Advisory Committee in its case — especially where there is a risk that the proposed work exceeds their mandates, raises political sensitivities or may result in the need for an increase in audit fee. The Board reiterates, however, that the principle should remain that the external auditors are the sole determinants of their proposed programme of work within their approved budget (ibid., para. 27).

29. **The Advisory Committee recognizes the importance of ensuring the continued independence of external audit, and, by extension, the necessity for the Board of Auditors to be able to determine its work programme. The Committee is not convinced that establishing a formal process by which its concurrence is sought for the Board's workplan is best suited to preserving such independence. However, the Committee continues to welcome, and benefit from, its ongoing dialogue with the Board of Auditors and considers that such dialogue could include discussions as to suitable topic-specific audit reports which may be requested of the Board in accordance with regulation 7.7.**

30. The Advisory Committee further notes that the Board's proposal reflects in part a concern that, in some instances, the General Assembly may not receive timely and independent external audit assessments and reports on major issues and concerns that the Board identifies during its audits. The Board states that, in many cases, it is ready and able to report to the General Assembly within a shorter and more responsive time frame. **The Advisory Committee is of the view that establishing a formal system of review of the Board's workplan at the start of the audit cycle would not, in and of itself, increase the level of responsiveness and flexibility with respect to issues the Board identifies during its audits. However, the Committee shares the view that the Board should be able to bring major issues and concerns to the attention of the General Assembly when it deems it necessary to do so. Accordingly, the Committee remains willing to engage with the Board on any such issues which arise but considers that this can best be achieved within existing arrangements. The Committee trusts that, when the Board deems it appropriate to do so, it will bring such matters to the Committee's attention.**

VII. Conclusions

31. In paragraph 31 of its report, the Board of Auditors presents its conclusions and requests the General Assembly to:

(a) Endorse the fundamental role of the Board, as the independent external auditors of the United Nations and its funds and programmes, in contributing to enhanced accountability, transparency, governance and value for money through the conduct of performance audits;

(b) Amend regulation 7.5 to bring it in line with the current practice of public sector external audit and performance auditing when the Financial Regulations and Rules of the United Nations are next revised; and/or

(c) Endorse the Board's proposals under the existing regulations for streamlining its current long-form reports, and balancing this with more topic-specific audit reports based on the Board's own assessment of the risks to cost-effective delivery and use of resources by United Nations organizations (having first sought the concurrence of the Advisory Committee on Administrative and Budgetary Questions).

32. **The Advisory Committee recommends that the General Assembly endorse the fundamental role of the Board, as the independent external auditors of the United Nations and its funds and programmes, in contributing to enhanced accountability, transparency, governance and value for money through the conduct of performance audits.**

33. **The Advisory Committee does not recommend approval of the proposed amendment to regulation 7.5 (see para. 26 above).**

34. **The Advisory Committee recommends that the Board continue its current practice of producing both short-form and long-form reports for each entity. While the Committee continues to welcome, and benefit from, its ongoing dialogue with the Board, it does not consider it necessary to establish a more formal mechanism by which its concurrence is sought of the Board's proposals**

for topic-specific audits at the start of each audit cycle (see paras. 29 and 30 above).

35. **The Advisory Committee trusts that the Board will continue to use its professional judgement to determine the best use of audit resources.**

Annex

Number of Board of Auditors reports, 2009-2016

No.	Entities	*United Nations system accounting standards*			*International Public Sector Accounting Standards*				
		2009	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Reports submitted to the General Assembly									
1	Peacekeeping operations	1	1	1	1	1	1	1	1
2	United Nations		1		1		1	1	1
3	International Trade Centre		1		1		1	1	1
4	United Nations University		1		1		1	1	1
5	United Nations Development Programme (UNDP)		1		1	1	1	1	1
6	United Nations Children's Fund (UNICEF)		1		1	1	1	1	1
7	United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)		1		1	1	1	1	1
8	United Nations Institute for Training and Research (UNITAR)		1		1		1	1	1
9	United Nations High Commissioner for Refugees	1	1	1	1	1	1	1	1
10	United Nations Environment Programme (UNEP)		1		1		1	1	1
11	United Nations Population Fund (UNFPA)		1		1	1	1	1	1
12	United Nations Human Settlements Programme (UN-Habitat)		1		1		1	1	1
13	United Nations Office on Drugs and Crime		1		1		1	1	1
14	United Nations Office for Project Services		1		1	1	1	1	1
15	International Criminal Tribunal for Rwanda		1		1		1	1	1
16	International Tribunal for the Former Yugoslavia		1		1		1	1	1
17	UN-Women				1	1	1	1	1
	Subtotal	**2**	**16**	**2**	**17**	**8**	**17**	**17**	**17**
18	Concise report[a]		1		1		1		1
19	Report on implementation of recommendations[a]	1		1		1		1	
	Subtotal	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Reports submitted to individual entities									
20	United Nations Fund for International Partnerships	1	1	1	1	1	1	1	1
21	United Nations Escrow/Iraq Account	1	1	2	1	1	1	1	1
22	United Nations Compensation Commission		1		1		1	1	1

No.	Entities	United Nations system accounting standards			International Public Sector Accounting Standards				
		2009	2010	2011	2012	2013	2014	2015	2016
23	United Nations Framework Convention on Climate Change		1		1		1	1	1
24	United Nations Joint Staff Pension Fund		1		1	1	1	1	1
25	United Nations Convention to Combat Desertification		1		1		1	1	1
26	UNRWA Microfinance Department	1	1	1	1	1	1	1	1
27	UNRWA Staff Provident Fund	1	1	1	1	1	1	1	1
28	UNDP, Global Environment Trust Fund	1	1	1	2	1	1	1	1
29	UNEP, Global Environment Facility	1	2		1	1	1	1	1
	Subtotal	**6**	**11**	**6**	**11**	**7**	**10**	**10**	**10**
Topic-specific reports									
30	Proposal for performance auditing				1				
31	Umoja				1	1	1	1	1
32	IPSAS			1	1	1	1	1	1
33	Capital master plan	1	1	1	1	1	1	1	1
34	Delivery of information and communications technology services					1			
	Subtotal	**1**	**1**	**2**	**4**	**4**	**3**	**3**	**3**
	Grand total	**10**	**29**	**11**	**33**	**20**	**31**	**31**	**31**

[a] Currently submitted once in a biennium but subject to review owing to changes in IPSAS reporting.